|  |
| --- |
| THIS DOCUMENT HAS BEEN PREPARED FOR THE PURPOSES OF THE  **PROJECT RESOURCE CENTER**.   IT IS FOR GENERAL GUIDANCE PURPOSES ONLY AND SHOULD NOT BE USED AS A SUBSTITUTE  FOR SPECIFIC TECHNICAL, PROCUREMENT OR LEGAL ADVICE FOR A PROJECT |

# Terms of Reference

# AUDIT OF SOLAR HOME SYSTEMS PROJECT

## BACKGROUND

*<Rationale for the project, project history and list of relevant studies, need for consultant in the project and issues to be resolved, source of financing.>*

## ASSIGNMENT

The assignment is to engage an auditor for the following:

A: Audit of Project Financial Statements and Special Accounts

B: Audit of Solar Home System Cofinancing Grant /Subsidy Requests

C: Post-fact reviews of selected Participating Credit Institutions

### A: AUDIT OF PROJECT FINANCIAL STATEMENT AND SPECIAL ACCOUNTS

As per provided for in the Grant Agreement, the Government is required to have the records and accounts of the Project for each fiscal year audited by an independent auditor.

#### A.1 Objective

The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion on the financial position of the Project at the end of each financial year, and of the funds received and expenditures made for each accounting period, as reported by the PFS, as well as express opinions on the Financial Monitoring Reports (FMRs) and the Special Accounts (SAs).

The Project Accounts (books of account) provide the basis for the preparation of the PFS and are established to reflect the financial transactions in respect of the Project, as maintained by the project implementing agency, the Administrative Unit of the Project.

#### A.2 Tasks of the Auditor

A.2.1

The audit will be carried out in accordance with Government Auditing Standards, and will include such tests and controls as the auditor considers necessary under the circumstances. In conducting the audit, special attention shall be paid to the following:

1. All external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purpose for which the financing was provided. The relevant financing agreements are the Development Credit Agreement, GEF Trust Fund Grant Agreement, Project Administration Agreement and Participation Agreements with each Participating Credit Institution (PCI) of the Project and subsidiary documents referred to in these agreements in particular the Operating Guidelines, General Conditions applicable to Development Credit Agreements and [Donor] procurement guidelines;
2. Counterpart funds have been provided and used in accordance with the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which they were provided;
3. Goods and services financed have been procured in accordance with the relevant financing agreement, following the [Donor] procurement guidelines;
4. All necessary supporting documents, records, and accounts have been kept in respect of all project ventures including expenditures reported via FMRs and SAs. Clear linkages should exist between the books of account and reports presented to the [Donor].
5. Where SAs have been used, they have been maintained in accordance with the provisions of the relevant financing agreement.
6. The financial statements have been prepared in accordance with consistently applied Government Accounting Standards and give a true and fair view of the financial situation of the Project as at the end of each financial year and of resources and expenditures for the period ended on that date.
7. Verification of documentation retained at PCIs and where applicable at Investment Enterprises to ensure that disbursements made from the Project were only for eligible expenses and were in accordance with the provisions of relevant financing agreements.
8. Opinion on the annual compliance certificates issued by the external auditors of the PCIs regarding the PCIs conformity with the eligibility criteria given in the Operating Guidelines of the Participation Agreement.

#### A.2.2 Project Financial Statements

The Project Financial Statements (PFS) will be presented in a format acceptable to the Government and the [Donor] and will include:

1. a Summary of Funds Received;
2. a Summary of Expenditure shown under the main Project components and sub-components and by main categories of expenditures, both for the current accounting period and accumulated to date; and
3. a Balance Sheet showing Accumulated Funds of the Project, bank balances, other assets of the project, and liabilities, if any.

As an annex to the PFS, the auditor shall prepare a reconciliation statement between the amounts shown as received by the Project and that shown as being disbursed by the [Donor]. As part of the reconciliation, the auditor should indicate the mechanism for the disbursement, i.e. Financial Monitoring Reports, or direct reimbursement, if any.

#### A.2.3 Financial Monitoring Reports (FMR)

In addition to the audit of the PFS, the auditor is required to audit all FMRs used as the basis for the submission of withdrawal applications. The auditor should apply such tests and controls as the auditor considers necessary under the circumstances. The reported expenditures should be carefully compared for Project eligibility with the relevant financing agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor. Annexed to the PFS should be a schedule listing individual FMR withdrawal applications by specific reference number and amount. The total withdrawals under the FMR procedure should be part of the overall reconciliation of [Donor] disbursements described above.

#### A.2.4 Special Accounts

In conjunction with the audit of the PFS, the auditor is required to audit the activities of the SAs associated with the Project. The SAs usually comprise:

1. deposits and replenishments received from [Donor]
2. payments substantiated by withdrawal applications
3. interest that may be earned from the balances and which belong to the Government; and
4. the remaining balances at the end of each accounting period.

The auditor must form an opinion as to the degree of compliance with [Donor]’s procedures and whether the Special Account Statements (whose format will be agreed by the Government and the [Donor]) present fairly the balance of the Special Accounts at the end of the accounting period as well as transactions made during the same period. The audit should examine the eligibility and correctness of financial transactions during the period under review and fund balances at the end of such a period, the operation and use of the SA in accordance with the financing agreement, and the adequacy of internal controls for this type of disbursement mechanism.

Special Account Statements in respect of [Donor] credit and grant and the Auditor’s Report should be included with the PFS.

#### A.2.5 Audit Opinion

Besides a primary opinion on the PFS, the annual audit report of the Project Accounts should include a separate paragraph commenting on the accuracy and propriety of expenditures withdrawn under the FMR procedures and the extent to which [Donor] can rely on FMRs as a basis for credit disbursement. In addition, the auditor shall include a separate paragraph containing an opinion on the Special Account Statements. The Special Account Statements, including the Audit Report, should be received by [Donor] no later than six months after the end of the accounting period, to which the audit refers. The auditor shall submit the report to the AU.

Accordingly, the Audit Report should give separate opinions on the Project Financial Statement, FMRs and the Special Accounts in accordance with the outline/draft audit report given in Annex 1.

#### A.2.6 Management Letter

The auditor will prepare a report on the Project’s internal control structure (Management Letter) and submit it to the Administrative Unit (AU) no later than [date] of the year following the audit. The Management Letter will:

1. give an opinion on the adequacy of the Project’s internal control structure during the period under review;
2. give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
3. identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
4. report on the degree of compliance of each of the financial covenants on the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
5. list any expenses considered ineligible for financing under the Project, either because of their nature or because of the inability of the auditor to find sufficient supporting documentation to evidence eligibility;
6. record the status of implementation (corrected, partially corrected or not corrected) of prior audit recommendations;
7. communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the Project; and
8. bring to the AU’s attention any other matters that the auditor considers pertinent.

#### A.3 General

The auditor will have access to all legal documents, correspondence, and any other information associated with the Project and deemed necessary by the auditor. Confirmation should be obtained of amounts disbursed and outstanding at the [Donor]. The [Donor] office in the country in liaison with the AU will assist in obtaining these confirmations.

The auditor shall maintain on file adequate working papers supporting audit conclusions for a period of three years after the end of the audit. During this period, the working papers shall be made available, on request, for review by the [Donor].

#### A.4 Reporting Procedure

The auditor shall report to the [designated official] at the end of each fiscal year ending 31 December, on or before 31 May of the following year in respect of this assignment.

#### A.5 Summary of Deliverables

1. Project Financial Statement
2. Management Letter

### B: AUDIT OF THE SOLAR HOME SYSTEM COFINANCING GRANT/SUBSIDY REQUESTS

#### B.1 Objective

The objective of this assignment is to continuously verify all data entry by the solar companies and also perform appropriate system reviews in order to ensure the cofinancing grant/subsidy disbursement request submitted to AU are accurate and complete and are supported by documentation evidencing the source of supply / passing on the subsidy to the household.

#### B.2 Procedure for Solar Home System Cofinancing Grant Release

This audit assignment covers the verification of the processing of cofinancing grant / subsidy applications in respect of solar home systems and solar lanterns (SHS) installed on homes and similar premises. The Project provides a pre-determined co-financing grant to solar companies upon submission of evidence of installation. In addition, the Government provides an independent subsidy to householders in selected provinces. The latter is effected through a price discount offered by SHS suppliers. Each installation is evidenced by a Customer Acceptance Receipt (CAR) generated by the solar company on installation. The CAR provides details of all the components making up the SHS as well as customer details. In addition, if the customer is entitled to a subsidy offered by the Government, the CAR will also provide confirmation by the Regional Development Officer in the respective Division, that the customer is a resident of that division and the subsidy has been passed on to him/her by the supplier. The applicant (solar company) then records all details of the installation from the data given in the CAR into a database maintained at a central location in the solar company. The grant/subsidy applications providing relevant information from the CAR are then forwarded to the AU, which is processed for payment as follows.

1. Solar companies forward to the AU a detailed schedule of project compliant SHS installed in a read-only soft copy format together with the cofinancing grant disbursement request.
2. The AU transfers the data in the soft copy to its database and verifies eligibility as to: (i) completeness of information, (ii) design compliance and (iii) duplication of claim.
3. AU then releases the cofinancing grant / subsidy for eligible applications.
4. Customized software is used for this purpose to facilitate data entry, transfer and processing.
5. To allow verification against source documents, solar companies forward a declaration with references, confirming that the schedules in the soft copy exactly match the information given in the CARs and that the original CARs will be available for inspection by authorized personnel.

#### B.3 Tasks of the Auditor

When engaged by the AU the auditor will:

1. Carry out adequate checks to ensure that all information submitted to AU by solar companies in soft copy form is correct and agree with the CARs in all respects.
2. Verify that the serial numbers of the photovoltaic modules given in the CARs match with the details given in the documentation accompanying the supply, namely, supplier’s packing list, supplier’s invoice, bill of lading and customs entry form.
3. Verify the conformity of signatures of the Regional Development Officer in the CAR to the specimen signatures provided to the auditor by the AU.
4. Submit a monthly report with adequate references detailing the work done, observations by the auditor, a statement on the validity of the declaration submitted to the AU by each solar company and an opinion about the information furnished to the AU.
5. The Project envisages the installation of [Number] SHS during a five-year period. The workload of the auditor for the purpose of this audit with regard to co-financing grant is estimated to be [Number] CARs per annum for the period of next two years. Of this amount approximately [Number] CARs per annum will qualify for the Government subsidy.
6. At present SHS are marketed by nine companies headquartered in [city]. The work of the Auditor will be largely executed in such offices from where the grant/subsidy claims originate.

#### B.4 Reporting Procedure

The auditor will report to the Project Director, Project on a monthly basis within two weeks following the end of each month in respect of each solar company.

### C: POST-FACT REVIEW OF SELECTED PARTICIPATING CREDIT INSTITUTIONS

#### C.1 Objective

The objective of the assignment is to examine the financial stability and performance of Participating Credit Institutions (PCI), namely merchant banks, leasing companies and micro finance institutions (MFI), and their ability to undertake project appraisal, implementation and follow-up. As per the Participation Agreement the auditor will undertake monthly post-fact reviews, quarterly financial reviews and an annual review of financial stability and continuity of the PCI. In addition the auditor will review applications of new PCIs.

#### C.2 Tasks of the Auditor

1. To ensure that loans approved by selected PCIs (merchant banks, leasing companies and MFIs) below the free limit are reviewed on a random selection of one Refinance Application per institution per month. Each review to ensure the following:
2. Review of the sub-project appraisal report, including check for conformity with PCI lending policies.
3. Compliance with procurement guidelines
4. Compliance with Environmental and Social Assessment Framework
5. Review of procedures for disbursement of funds
6. Review of documentation on submission of Refinance Application (RA) and Loan Disbursement Requests (LDR) to AU
7. Review of debt collection procedures in general
8. Review of internal controls and monitoring systems in general
9. To provide an opinion on the draft financial statements and indicators of financial performance calculated by the auditor of the PCI on a quarterly basis.
10. The auditor to study, evaluate and report annually the adequacy of systems, procedures, controls and staffing in the context of financial stability and continuity of the PCI as a whole.
11. On admission as a PCI, the auditor to verify and report on the acceptability of the institution’s admission in accordance with Part 2 of the Operating Guidelines and the requirements of item C.2 (c) above.

#### C.3 Reporting Procedure

* 1. The auditor will report to the Project Director in respect of item C.2 (a) on a quarterly basis, within two weeks following the end of each quarter.
  2. The auditor will report to Project Director in respect of item C.2 (b) within two weeks of receiving the documents from AU.
  3. The auditor will report to Project Director in respect of item C.2 (c) within one month of receiving the audited financial statements.
  4. In respect of C.2 (d) the auditor will report to a representative nominated by the [Donor] Office through the AU, within three weeks from engagement.

## QUALIFICATION OF THE AUDITOR

The auditor should have over 10 years of audit/system review experience.

## TIME FRAME

The Project is expected to close on [date] and annual audits will be required in respect of each of the fiscal years ending [date] through [date]. However, the current assignment is for a period of two years commencing from [date] to [date].

## BASIS OF PRICING

The Auditor should quote an all-inclusive lump-sum figure (including taxes) for each of the categories A, B and C in section 2.0 above, covering a period of two years, giving the following breakdown:

A: Audit of Project Financial Statements and Special Accounts:

A-1: The Administrative Unit

A-2: Ten participating credit institutions

B: Audit of Solar Home System Cofinancing Grant /Subsidy Requests

B-1: Audit of Solar Home System (SHS) Cofinancing Grant Requests

B-2: Audit of SHS Subsidy Requests

C: Post-fact reviews of three Participating Credit Institutions

The contract value shall be the total of A-1, A-2, B-1, B-2 and C above. The quantities stipulated in A-2, B-1, B-2 and C above are estimates and may vary within reasonable limits. Payments will be pro-rated, based on actual audits/reviews completed for each sub-category.

## Annex 1: MODEL AUDIT REPORT

### UNQUALIFIED OPINION

Addressee[[1]](#footnote-1)

### Introductory Paragraph

We have audited the accompanying financial statements of the [\_\_\_\_\_\_\_] Project [financed under [Donor] Loan No.\_\_\_\_\_/ as of Month day, XXXX [indicate any other additional periods necessary] for the year(s) then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

### Scope Paragraph

We conducted our audit with Government Auditing Standards on Auditing [or relevant national standards or practices, and/or [Donor] guidelines]. Those Standards and /or [Donor] guidelines require that we plan and perform audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Opinion Paragraph

In our opinion, the financial statements give a true and fair view of the Sources and Application of Funds of \_\_\_\_\_\_\_\_ Project for the period ended Month day, XXXX in accordance with [indicate International Accounting Standards or relevant national standards*,* and the“ financial position” of the Project at Month day, XXXX

In addition,

(a) the funds provided under the Credit [Loan/Cr. No. ] have been utilized for the purposes for which they were provided;

(b) the FMRs submitted could be fairly relied upon to support the applications for withdrawals in accordance with the requirements specified in the Credit Agreement; and

(c) the financial statements of the Special Account give a true and fair view of the financial position of the Special Account of \_\_\_\_\_\_\_\_ Project (Loan/Cr.No.\_\_\_\_\_) as of the Month day, XXXX in accordance with International Accounting Standards [or relevant national standards and [Donor] guidelines].

[Names and Address of Audit Firm] [Date – Completion Date of Audit]

1. The auditor’s report should be appropriately addressed as required by the engagement letter. [↑](#footnote-ref-1)